CONTROLLERSHIP AND MARINE CORPS CONTROLLERSHIP: A DUAL SURVEY

by

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TABLE OF CONTENTS

CHAPTER I

INTRODUCTION

This paper is written in an attempt to perceive the current status of the controllership function as it is performed within the United States Marine Corps. This examination will be conducted with a view to a comparison of the method and procedures of the Marine Corps with a generalized representation of the concepts and procedures prevailing in the private, commercial sphere. Such a context of comparison will reveal several areas of incongruity or irrelevance to some of the special situations peculiar to a public arm engaged in national security. However, the juxtaposition of the Marine Corps practices with the broad range of commercial controllership should be instructive and should provide a fuller perspective in which to view the Marine Corps' endeavors.

The course of the paper will progress from a basic presentation of the background and accepted current functions of controllership through an examination in some depth of the nature of these functions. Especial attention will be given to the more recent and increasingly complex problems facing the controller. These problems will include the increasing impact of mathematical and statistical analysis and system

design and maintenance. As a culmination and concurrently a solution to these problems, data automation and its influence will be considered. On the framework of this evaluation of the current state of controllership in general, the details of the function as performed within the Marine Corps will be examined.

With this broad and often elusive objective, it is conceded, at the start, that numerous areas of fruitful potential within the controllership field will be given short attention if they are not completely ignored. However, it is the hope of the author that no major area of current function definition or possible evolutionary impact will be omitted, and that the sum of the entire discussion will present a fair portrayal of the overall present state of the financial management function and of its accomplishment within the Marine Corps.

An attempt to stop the clock for the purpose of leisurely perusal is an impossibility when the subject under examination is a dynamic, changing entity. Any suspicion that controllership has escaped the pressures for change induced by technology and society is quickly dispelled by the comments of those close to the field. For example, the following remark is provided by the controller of a large publishing company:

> Trying to wrestle with some of the changes that have affected my own job has proved to be particularly confusing at times. More and more I find that I can no longer solve the problems as easily as before; there are so many new uncontrollable factors to contend with. Financial management is no

> longer a clear-cut, well defined field. More and more it overlaps into many other jurisdictions, and the financial manager must be better trained and more technically informed than ever before to handle his broadening field.[1]

This honest admission of the existence of the pressures of change is followed by some remarks on the influence of structural change, government and the computer. This last stimulus merits some additional special comment:

> Many people are not prepared for the thinking that is required to live in this bold and demanding new existence. In effect, the computer has caused a revolution of thought that requires a reappraisal of many of the pillars supporting our business world.[2]

Or consider these remarks by the vice president of a major aviation corporation:

> The traditional role of the financial man has been past oriented. His new role will be future oriented. The old-fashioned controller with the sharp pencil was concerned chiefly with records. Tomorrow's finance man must be a forecaster as well as a keeper of records. He will help the company make internal and external decisions governing its future life.[3]

The observations of these two gentlemen are representative of the widely voiced and published concern of a great number of both practicioners and observers of the

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[1]A. Keith Buckland, "Where Are We Going in Financial Management?," Financial Executive, XXXV (May, 1967), 23-24.

[2]Ibid., 24.

[3]John A. Moore, "The Financial Executive in the 1970s," Financial Executive, XXXV (January, 1967), 29.

finance function. In fact, the opinion of the sense of change in the field tends to claim not only a constant movement and response but an accelerating expansion and redefinition of the boundaries prescribing controllership's role.

With an awareness of this element of change, this attempt to define a current system will necessarily deal with the elements in flux within the system. Thus, with due attention to the pressures for change, the total description of controllership practice embodied by the paper will be an assembly of accepted statements of the controller's function, the pertinent academic and technological influences on the performance of this function and an appraisal of the direction indicated by current trends.

The question to be answered, then, is what is the present status of the controllership function within the United States Marine Corps. Closely allied and logically derivative from this basic query are the following subsidiary questions: What component functions comprise the general controllership function? What are the historical and disciplinary sources of these present functions? What, as a distinct impetus, has been the impact of automatic data processing on the execution of the controllership function? How does the Marine Corps accomplish the component functions?

As a final question, the future role and status of the controller will be estimated in the light of the chosen present practices of commercial theory and the actual practices

of an organization within the Department of Defense. This area of the paper is an area of digression into speculative suggestion and is representative of the conclusions of the author.

CHAPTER II

THE CONTROLLER'S FUNCTIONS

The controller possesses an oddly inaccurate title. Within the enterprise in which he labors, he is not in control. How did this apparently gross exaggeration of job title come to be? It can best be discovered by a brief etymological examination. An historical account of the word is provided by Frederick R. Bowie in an article noting the existence of the absolute synonym "comptroller":

> The word, _controller_, apparently derives from the Latin _contre-role_, or one who checks against another. There has been some speculation that it was a roll, such as a muster role, payroll, or other document that was checked against.[1]

The practice of checking is continued through Ancient and Middle French with the spelling evolving to _counter-rolle_. In time the word and the function it described crossed the English Channel. Here the genesis of the present synonyms occurred;

> This job of checking on accounts, as would be expected, fell on the scribes of the day; they were the _controllers_. As seems to be the nature of scribes, they sought to improve the status of their positions. They reasoned that their title, _controller_, was incorrectly spelled, being based

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[1]LtCol Frederick R. Bowie, USMC, "'Comptroller' or 'Controller'," _The Armed Forces Comptroller_, July, 1969, 22-23.

> on the Middle French (MF) verb, <u>contre</u>, against. They further reasoned that it should derive from the MF verb, <u>compte</u>, which meant account or count. . . . . In 1551, the word, <u>comptroller</u>, appeared.[1]

The arrival of the word <u>comptroller</u> did not expel the word <u>controller</u> from usage, regardless of the best guess as to the aspirations of the scribes of the times. Both spellings exist today and mean the same thing, although the meaning has expanded considerably beyond that of a scribe checking upon accounts. Both spellings will appear in this paper, although <u>comptroller</u> will be used only in citations or specific reference to offices or procedures that choose that spelling.

General Functions of the Controller

The controller can be most broadly defined as the chief financial officer of an enterprise. The functions of this officer are listed by the <u>Corporate Treasurer's and Controller's Encyclopedia</u> as the following:

> ACCOUNTING. Functions relating to the recording and protection, from a book standpoint, of the corporate assets; the recording of transactions as a basis for determining the corporate income, expense, earnings, income and excise taxes, surplus, and financial position; and cost accounting, methods and systems, budgets, and the design, installation, and custody of books, records and forms.
>
> INTERPRETIVE. Functions relating to the preparation, analysis, and explanation of financial, accounting, cost, and statistical results, as an aid to management in the direction of the business; for obtaining credit or financial assistance; for reports to stockholders; or for other purposes of internal or external use.
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> AUDITING. Functions relating to the establishment of internal auditing controls; the objective verification of business, financial and accounting transactions; and the coordination of

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[1] <u>Ibid.</u>, 23.

accounts and internal auditing procedures with the requirements of independent auditors.

TAX. Functions relating to the assembling of information, and the preparation of returns for income and excise taxes, claims, and refunds; the discharge of income, excise, and real and property tax liabilities; and the relationship with tax agents and auditors.

FORECASTING. Functions relating to the forecasting of profits and income taxes as at future dates, as a basis for cash, operating control, capital expenditure, advertising, or other budgets; the retirement of debt; the improvement of financial condition; the expansion or contraction of the business or facilities; or for other purposes of management control.

ECONOMIC. Functions relating to the development and maintenance of economic and statistical information, and the analysis or forecasting of volume, costs, profits, taxes, and financial position, in relation to past, present, or future operations.[1]

This litany of function is essentially consonant with that developed by the Committee on Ethics and Eligibility Standards of the Financial Executives Institute. The first item listed by this agency, interesting in its wording, states a function as:

1. To establish, coordinate and maintain, through authorized management, an integrated plan for the control of operations. Such a plan would provide, to the extent required in the business, cost standards, expense budgets, sales forecasts, profit planning, and programs for capital investment and financing, together with the necessary procedures to effectuate the plan.[2]

This wording is interesting in the use made of the word control, which appears to be specifically used to provide a

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[1]Lillian Doris (ed.), Corporate Treasurer's and Controller's Encyclopedia, Vol. I (Englewood Cliffs, N.J.: Prentice-Hall Inc., 1958), p. 29.

[2]J. Brooks Heckert and James D. Willson, Controllership (2d ed. New York: The Ronald Press Company, 1963), p. 13.

a hint of translation from title to function. It is noteworthy that this word is preceded by the qualification that the controller operates through authorized management, a distinct reference to the traditional staff categorization of the controller.

A further evaluation of controllership activities which summarizes the foregoing and relates these functions to more general descriptions is presented by Heckert and Willson in their book Controllership.[1] This breakdown lists the planning function, the control function, the reporting function, the accounting function and others.[2] This listing admits to some commingling of function, as is apparent in the overlap between reporting and accounting, but it is a useful device for analysis. The others listed in the final miscellany include tax supervision and operation, auditing, insurance supervision and general external liaison. Also included is the executive operation of those under the organizational control of the controller.[3] Comment on this last item of responsibility is also provided in the Corporate Treasurer's and Controller's Encyclopedia:

> In addition to the duties that may generally pertain to an office, the incumbent has the responsibilities that are common to all supervisors. Thus, within his own segment of the enterprise, a treasurer or controller has some measure of responsibility for the plan of

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[1] Ibid.

[2] Ibid., pp. 13-14.

[3] Ibid., p. 14.

> organization, personnel administration, and the effect of their operations upon the finances of the company. Like all supervisors, he must see that his performance of supervisory functions coordinates with the policies and procedures of the company as a whole.[1]

This brief description of the functions and responsibilities of the controllership does provide insight into the rather broad range of involvement in the vitals of the firm or enterprise that is performed by this agency. It is noted that the traditional organizational assignment of the controller has been as staff rather than as line. Although the substance dealt with is the denominator of the business, i.e., financial measurement and analysis, the controller has historically provided recommendations and plans rather than directives. The decisions for or against acceptance and implementation of the output of the controller's expertise has remained a line function. However, as noted in the preceding cite, the staff agency may have considerable line responsibility of its own, although not to the degree that the strategic corporate decisions are within its cognizance.

This traditional categorization of the controllership as staff is a matter of some vagueness and confusion which becomes apparent when the responsibilities and functions of the controller are assumed within the line organization by a vice-president or other of similar status. With such assignment of function, the separation of line and staff becomes less clearly defined, and the directive powers of the head financial

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[1]Doris, Corporate Treasurer's and Controller's Encyclopedia, p. 22.

executive are increased. Although such instances exist as a result of corporate philosophy, objective or random circumstance, the traditional role as a staff agency will be an assumption of the discussion contained in this paper.

For our examination of the components of the general controllership function, the summary descriptions previously mentioned will be used for categorization, but will be taken in what is considered a more workable sequence. Thus, the specifics of the controllership function will be investigated in the order of accounting, reporting, control and planning.

The Accounting Function

Accounting is the keystone function of the controller. From this procedure of purposeful recording he derives the building blocks of his professional structure. This ancient art of weights and measurements of money is, as is the overall controllership, expanding and escaping the "sharp pencil" stereotype. Those involved in accounting at levels above the bookkeeping level are gaining awareness of the managerial aspects of their efforts. In fact, the controller is the managerial accountant in the most basic sense. An understanding of this essential component of the controller's role is essential to an understanding of the controller himself.

The accounting system exists to accumulate information about the activities of an organization. A concise definition of the functions of the accounting system is that it:

> . . . accumulates, classifies, and summarizes information on business transactions in monetary terms, either actually incurred or merely planned.[1]

Another view of the purposes of an accounting system states:

> The accounting system is the major quantitative information system in almost every organization. An effective accounting system provides information for three broad purposes: (1) internal reporting to managers, for use in planning and controlling current operations; (2) internal reporting to managers, for use in making special decisions and in formulating long-range plans; and (3) external reporting to stockholders, government and other outside parties.[2]

From these two broad statements of function and purposes, two distinctions become clear. First is the separation between events that have already occurred, or historical events, and those events that are planned. Secondly, the alternative purpose of internal, or managerial uses of accounting is compared with the external reporting or financial accounting purpose. There is general agreement on these distinctions. Robert N. Anthony, in his primary textbook on accounting, notes the distinction between the concepts of financial and management accounting.[3] Further support is supplied in a widely used text, which states:

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[1]Wallace M. Carrithers and Ernest H. Weinwurm, Business Information and Accounting Systems (Columbus, Ohio: Charles E. Merrill Books, Inc., 1967), p. 19.

[2]Charles T. Horngren, Accounting for Management Control: An Introduction (Englewood Cliffs, N.J.: Prentice Hall, Inc., 1965), pp. 3-4.

[3]Robert N. Anthony, Management Accounting, Text and Cases (3d ed. Homewood, Ill.: Richard D. Irwin, Inc., 1964), p. 1.

> The ultimate objective of accounting is the use of these data, their analysis and interpretation. A good accountant . . . looks for meaningful relationships between events and financial results; he studies the effect of various alternatives; and he searches for significant trends that may throw some light on what will happen in the future.[1]

The controller's responsibility for the accounting within an organization extends to both the financial and management aspects of the system. These aspects will be examined separately.

Financial Accounting

This is the basis of the broader modern concept of accounting. Essentially, the financial accounting function is concerned solely with the recording, in an established formal manner, of the historical monetary transactions of an organization. Anthony concisely declares:

> The purpose of financial accounting is to provide financial information about a business or other organization to outside parties-investors, lending agencies, regulatory bodies, and the public.[2]

He further treats the formal character of financial accounting with the qualification:

> The reader should be entitled to assume that the information is presented "in accordance with generally accepted accounting principles." An important criterion in devising these principles

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[1]Walter B. Meigs and Charles E. Johnson, Accounting (New York: McGraw Hill Book Company, Inc., 1962), p. 2.

[2]Robert N. Anthony, John Dearden, and Richard Vancil, Management Control Systems (Homewood, Ill.: Richard D. Irwin, Inc., 1965), p. 12.

> is that of objectivity; that is, it is considered essential that financial statement data be predominantly derived from objective evidence, rather than subjective, and hence unverifiable, judgments of management.[1]

The strongly formal laws of financial accounting, although a matter of argument in and out of the accounting profession, are based on the concern for the "reader" and his comprehension. That financial accounting procedures should be "generally accepted" is an act of accepting a common language for the presentation of monetary status among the innumerable concerns involved in the earning, spending and astute saving of money. A frequently used, and singularly appropriate word describing the purpose of financial accounting is its revelation of "stewardship." This word embraces the whole of the financial public relations of an organization: it exposes, in sequential comparison, the money measurement of the success of management in the formal dictates of the accounting rules. Horngren aptly simplifies the process to a means of score-keeping.[2] This scorekeeping endeavor, with its formalized constraints, is an extremely critical mode of advertising. Although only the financial surface of an enterprise is revealed, and the internal intricacies and intimacies are veiled, sufficient insight is disclosed to allow investors and taxpayers to inquire and evaluate.

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[1] Ibid., p. 12.

[2] Horngren, Accounting for Management Control, p. 5.

The previous reference to objectivity as a component of financial accounting must be joined by the other requisites of usefulness and objectivity.[1] These are the delicately balanced criteria upon which an accounting system is constructed. Hopefully consonant with these criteria are the basic accounting concepts of business entity, going concern, monetary measurement, consistency, conservatism, dual aspect or matching, acquisition costing, disclosure, and the controversial accrual and realization concepts.[2] These foregoing are the devices of assurance of a common language.

From the mentioned principles of financial accounting is designed the chart of accounts, a formulation of the necessary transaction recordings that will satisfy the external demands of the organization. The most frequently encountered of these charts, in their culmination, are the periodic financial statements published or otherwise disclosed to those outside the enterprise.

Yet statements of financial position, income statements, statements of funds' flows and sources, and the basic balance sheet are under the pressures of change. An attentive controller must be aware of the controversies that swirl around valuation techniques, depreciation schedules, tax changes and redefinitions and a myriad of other variables that can change the figures of the external statements.

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[1]Anthony, Management Accounting, p. 29.

[2]These concepts are listed as the author's synthesis of the writings of Anthony and Horngren.

Management Accounting

Management accounting is concerned with the recording of transactions for the purpose of internal usage. As the name plainly indicates, it is prepared for the consumption by management. As will become apparent in the remainder of this chapter, management accounting is the threshhold of overlap into the planning, reporting and controlling aspects of the job of the controller. With greater detail of treatment of these functions reserved for later discussion in the paper, certain pregnant aspects of management accounting will be given abbreviated introduction in this portion.

The most immediately obvious characteristic of management accounting is the loosening of the strict rules obtaining in financial accounting. Anthony notes this distinction in this statement:

> Management accounting differs from financial accounting in that it is not bound by the generally accepted principles of financial accounting. In devising its management accounting structure, management may prescribe whatever rules it finds useful, without regard to whether these are consistent with generally accepted principles.[1]

The freedom of design indicated by this statement is qualified, however:

> Even so, the management accounting structure will resemble the financial accounting structure in most respects, both because the principles useful in reporting to outside parties are often equally useful in reporting to management and because the internally generated data are the raw material for the published financial statements, which makes it desirable to have the differences kept to a minimum.[2]

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[1]Anthony, Dearden, and Vancil, Management Control Systems, p. 12.

[2]Ibid., p. 13.

In another text on the subject, Anthony provides the practicable criterion to be applied in designing the structure of the management accounting system by providing the guidance that ". . . the basic question in management accounting is the pragmatic one: 'Is the information useful'--not 'Does it conform to generally accepted principles?'."[1]

The determination of what is "useful" to management is dictated by the variables of each organization. No master plan for the objectives of management accounting can be provided as the needs of management depend upon organizational objectives, labor-capital mix, size, structure and the various effects of the organization's environment. The determination of these information needs is one of the major challenges of management and concurrently one of the areas in which the controller can make his greatest contribution. The controller can provide direction to the efforts of management by virtue of his expert knowledge of the details of the accounting system and can modify or restructure the accounting system to develop needed information in the most efficient manner.

Although specifics of the objectives of management accounting cannot be reasonably listed, certain general guidelines are applicable to the majority of situations. The information yielded by the accounting reports should facilitate management control. Anthony perceives three parts to the process of exercising management control: planning, and the principal formal device of the budget; operations, with the use

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[1]Anthony, Management Accounting, p. 360.

of accounting data for communication and the establishment of guidance; and, measuring and analyzing performance, this step closing the circle in its return to the formulation of future plans.[1]

The Reporting Function

The reporting function shares the internal and external characteristics of the accounting function. The internal aspect of reporting is similarly involved in the provision of necessary managerial information. This is the information generated by the management accounting system. Heckert and Willson discuss the internal reporting requirement:

> Insofar as it concerns internal management, the reporting function is closely related to both the planning and the control functions. Reporting is essential to make planning and control effective. Yet the reporting function is not merely one of presentation of tabulations and is not wholly routine although some phases become routinized. Moreover, the management which makes decisions often cannot be kept adequately informed solely from periodic statements regardless of how well-designed they may be. The reporting function encompasses the *interpretation* of the figures, and the controller's duty is not discharged until management actually understands the facts.[2]

The interpretation of the information involves not only the formulation of relevant analytical techniques and calculations,

[1] Ibid., p. 361.

[2] Heckert and Willson, *Controllership*, p. 16.

but also the translation of some of the jargon of the financial system into terms relevant to management. This consideration and others are mentioned by Anthony as criteria for control, i.e., internal reports:

> They should be objective; that is, they should report what actually happened without bias. They should be timely; if they are to be the basis of action, they must be received before the time for effective action has passed. They should be clear and easily understood, although clarity should not be achieved by oversimplifying an inherently complicated situation. They should indicate, if possible, the reasons why, not only the facts about performance itself.[1]

The external aspect of reporting receives its impetus from both ethical and legal imperatives. The ethical aspect derives from a sense of responsibility to the public, most specifically the stockholders of a corporation and the accounting policy of full disclosure. The external reporting function can be a two way street for the organization as well. L. Keith Goodrich, the former national president of the Financial Executives Institute describes the effect of external reporting:

> The character, personality, and reputation of a corporate entity are established not only by the success of the company, usually measured by its profitability, but also by what and how it discloses the pertinent information affecting its operation, be it for good or bad.[2]

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[1]Anthony, Management Accounting, p. 375.

[2]L. Keith Goodrich, "Executive's View of Corporate Reporting Responsibilities," Financial Executive, XXXIV (December, 1966), 18.

In addition to the effect of the publication of the periodic financial reports to shareholders, this definition of character, personality and reputation can be promulgated by reports to employees and through media institutional advertising.

In the setting of legally required reporting, the controller must satisfy the demands of government and stock exchanges. Various governmental agencies require specific items of financial information. The bulk of reporting to government is required by regulatory agencies: The Securities and Exchange Commission, the Federal Trade Commission, the Interstate Commerce Commission, the Federal Power Commission, and the Federal Communication Commission all have specific reporting requirements that may be applicable to an organization. Other federal agencies that may require information are the Department of Commerce, the Department of Labor and, of course, the Internal Revenue Service. State and local governments may also require the provision of financial data.

Another area of possible external reporting requirement is in the provision of information desired by existing or potential creditors. This requirement is backed by force of law in the case of bond issues by an organization.

The Control Function

This element of the controller's duties is the operating objective of the accounting and reporting dunctions. Heckert and Willson introduce this area of controllership by stating:

> The management function of control is the measurement and correction of performance so that business objectives and plans are accomplished. Management control seeks to compel conformance to plan or standard. In this function, also, the controller assists. He does not enforce control, except in his own department, but he provides information which the functional executive is expected to use to achieve the required performance.[1]

General guidance for the conduct of this function is then presented:

> In approaching problems relative to the control function, a broad view usually is helpful. The end result of the control function is not merely a report on performance. Rather it should involve:
>
> 1. Assistance in setting standards for control.
> 2. Evaluation of standards, including related analysis.
> 3. Reporting short-term actual and standard performance.
> 4. Developing trends and relationships to assist the operating executives.
> 5. Ascertaining that the system and procedure, through constant review, are providing the required, most helpful data, on the most practical and economic basis.[2]

The prime element of the controller's contribution to managerial control is the reporting of and analysis of costs. The comparison of actual costs with a selected standard reveals much about the performance of the enterprise. The standard selected may be a formal operating budget applied to routine operations or it may be one time theoretical figures derived for a specific anomalous situation. The continuing evaluation of standards is a necessity if they are to be of

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[1]Heckert and Willson, Controllership, p. 15.

[2]*Ibid.*, p. 16.

managerial value. They must be realistic if variances reported are to be of significance. To cite Heckert and Willson:

> Whether standards are used for cost control or the related function of budgetary planning, or whether standards are for the purpose of price setting or inventory valuation, they must be kept up to date in order to be most useful. Revision appears desirable when important changes are made in material specifications or prices, methods of production, or labor efficiency or price--from the viewpoint of manufacturing operations. Changes in the methods or channels of distribution, or basic organizational or functional changes, would necessitate standard changes in the selling, research, or administrative activities. Stated in other terms, current standards must be revised when conditions have changed to such an extent that the standard no longer represents a realistic or fair measure of performance.[1]

Developing meaningful conclusions or suggestions from the relationship of actual and standard figures requires that the controller have a full understanding of the operations of the enterprise. Variances from standards must be viewed in terms of the organizational objectives, structure and environment. The factors that have influenced the figures of past performance should be examined to determine their effect on current operations. Flexibility is a requisite of an effective control system.

The Planning Function

The value of careful and sound planning is an accepted facet of managerial thought. Planning is both an attempt to estimate those events that may occur and a conscious effort to

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[1] *Ibid.*, p. 171.

insure the occurrence of certain events. The controller's participation in the planning process is primarily directed toward the preparation of the financial plan. The _Corporate Treasurer's and Controller's Encyclopedia_ defines financial planning as:

> . . . the preparation and translation of the short- and long- term plans and programs of a business into terms of the funds (money) needed to consummate such plans and programs, the subsequent determination of the most desirable and economical ways to acquire such funds, the control over the expenditure of the funds, and the appraisal of the results obtained from these expenditures.[1]

Five major steps in the accomplishment of financial planning are identified:

> 1. Establishing the goals or objectives of the business.
> 2. Forecasting and measuring the conditions that affect the realization of goals.
> 3. Budgeting and scheduling operations in terms of the forecast.
> 4. Controlling operations in line with the budget.
> 5. Appraising results, then modifying goals, the forecast, and/or the budget as may be required.[2]

In the broad sense of the term, the financial planning function is budgeting, especially when the short-term is the period of consideration. In the longer run the financial planning function may be canalized into a narrower endeavor such as predicting the future status of production costs, cost of capital, or general economic conditions.

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[1]Doris, _Corporate Treasurer's and Controller's Encyclopedia_, p. 55.

[2]_Ibid._, p. 102.

Forecasting usually includes analysis of past financial transactions for extrapolation into the period of future study. The controller's understanding of the nature of past financial events is a requisite for the intelligent use of such regression analysis.

The controller is of the greatest assistance to management in the conduct of planning. He supplies the reduction of inspired vision to the hard realities of money. This reduction of plans and proposals to numerical correlation gives management the most significant tool available for the evaluation of alternative courses of action.

CHAPTER III

MANAGEMENT AND THE FINANCIAL INFORMATION SYSTEM

The preceding chapter was organized by the expedient of describing distinct elements of the controllership function. It is apparent from the nature of these elements that the overlap is substantial and that the process being defined is comprised of the sum of the elements, often occurring simultaneously. The common element to the functions of accounting, reporting, controlling and planning is the treatment of these functions in terms of financial information. The controller's task is the collection, evaluation, dissemination and maintenance of this financial information. The term, information, is perhaps more simple in its appearance than in its real identity. This chapter will examine the nature of information, extending the results to financial information, and then deal with the problem of manipulating this information into a context where it may be of maximum use.

Information v. Data

Information, as used in this paper, refers to more than an accumulation of raw data. The concept of "information" intended is that presented by Professor Adrian M. McDonough of

the Wharton School of Business and Finance:

> "Information" is used here as the label for evaluated data in a specific situation. When the individual singles out one of his problems and finds among his data materials that help him solve the problem, he is converting or isolating information from data. Note that a given message may remain constant in content and yet, under this approach, change from data to information when it is put to use in making a decision. The distinction between data and information gives opportunity to create classifications that can be used for further analysis.[1]

This concept is oriented toward individual perception but can be easily extended to application to group and organizational context. The essential aspect of the approach is one of defining information as processed or considered data which have been selected for its relevance to a given problem or situation. Such a definition imposes a subjective judgment upon available facts, statistics and guesses, for the value of the data at hand is solely a function of the intentions of the agency that seeks it. Accordingly, an isolated fact can range in value from useless to vital: its categorization as information traversing the spectrum in between. It is a somewhat abstract, but eminently workable definition. As McDonough states later in his discussion:

> I have deliberately defined "information" as a compound idea. The compounding comes from the process described . . . ; i.e., information is formed as a particular problem is matched by

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[1]Adrian M. McDonough, Information Economics and Management Systems (New York: McGraw-Hill Book Company, Inc., 1963), pp. 71-72.

> the specific data needed for the problem solution. As we make each incremental decision in this matching process, we are building the structure of the values that ultimately add up to the value of a particular solution.[1]

The apparent corollary of this statement is that the value of the solution to a problem and its contributive decisions is a function of the adequacy, relevancy and accuracy of the information used in the decision process. And to extend this corollary, the information value is a function of the judgment involved in the selection of its component data.

McDonough, in his initially cited definition mentions the "opportunity to create classifications" among the stores of evaluated data at hand. This statement is the basis for the effective and efficient use of information. The possibilities for the division of information into discreet and interrelated categories are limited by the imagination of the user. However, the breakdown of available information is best performed, at the start, in general terms. Although the following division of information is presented in the dissection of business information, John Dearden and F. Warren McFarlan provide appositive classification criteria that are equally applicable to all information: (1) action v. nonaction information, (2) recurring v. nonrecurring information, (3) documentary v. nondocumentary information, (4) internal v. external information, and (5) historical information v. future

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[1] *Ibid.*, p. 76.

projection.[1] These ordered dichotomies are a useful device for the analysis of information and are particularly appropriate to the analysis of financial information.

To apply the preceding definition of information and the listed classifications to the area of finance can best be demonstrated by some examples. Consider first the financial accounting and external reporting functions of the controller. For the random data that is developed by the transactions of a business to become financial information, a series of evaluative steps are performed. The first and most obvious is the expression of these data in monetary terms. Next, and central to the conduct of financial accounting, is the decision made in selecting the proper point of entry in the chart of accounts. Viewed from the point of reference of ultimate reporting, this information, during the period of accumulation is nonaction, possibly both recurring and non-recurring, documentary, internal and historical. At the end of the accounting period, the nature of the information changes to the degree that it is now action information for the purpose of analysis of the financial statement, with the other categories remaining the same. The status of the completed and published financial statements can now revert to being mere data, the determination as information awaiting the need and

[1]John Dearden and F. Warren McFarlan, Management Information Systems: Text and Cases (Homewood, Ill.: Richard D. Irwin, Inc., 1966), pp. 4-6.

judgment of an agency for which this data can be useful in the solution of a problem.

An example of the internal and managerial accounting functions of the controller may include a substantial increase of variables for consideration. The determination that data qualifies as information depends upon the problems management seeks to solve. The financial information necessary to choose between alternatives available for imperative capital investment could include all of the possible thirty-two combinations yielded by the original five dichotomies. One example might be the expected annual net cash inflow to be realized from a specific investment choice. This would be a nonaction, internal, recurring, nondocumentary, projected item of information. Other examples are obvious.

The point of this discussion is to present the essential reasoning process that accompanies the analysis of information. An intuitive grasp of these essentials permits both the controller and the operating executive to locate the information required and to properly apply this information to the problem being solved.

The Process of Communication

Information which exists untouched and sovereign is a semantic contradiction of the sort posed by the old puzzler questioning the existence of a sound when it is made by an unheard falling tree. If we are to be true to our preceding definition, such a body of independent information simply cannot

be: to be information, data must be evaluated; to be evaluated, it must be communicated. Thus, the study of an information system is best commenced by an inquiry into the process of communication.

The primary dictionary renditions of the act of communicating involve words such as convey, relate, impart and make known. For the purposes sought here, communication will be considered the process of transmitting information from the point of its source to the point of its reception.

This process of information transmission has been the subject of extensive study in itself. One of the foremost authorities on the subject of communications, particularly in the area of spoken and written language, S. I. Hayakawa of San Francisco State College has discerned two tasks of language, the affective and the informative.[1] Briefly, these categorizations are based on the point of view of the hearer, with the affective language being that which is of a nature to induce a mental or physical response, and are perceived as matters of the speaker's judgment, while the informative connotation is a verifiable statement. The affective use of language is suited for rhetoric, hyperbole and poetry, while the informative use is a necessity for efficient and accurate communication. The fair assumption that an information system that is constructed for the efficient accomplishment of objectives should seek informative language should be

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[1]S. I. Hayakawa, Language in Thought and Action (2d ed. New York: Harcourt, Brace and World, Inc., 1964), p. 82.

accompanied by the realization that the nature of language involves the affective as well. As a caution of this dual function of language, Hayakawa states a more general dictum in no uncertain terms when he says ". . . no word ever has exactly the same meaning twice."[1] This stern warning is based upon the proposition that the contexts of an utterance are the determinants of its meaning. Assuming the eternal flux of context, this harsh statement rings true. The essential lesson is the necessity for a critical and structured means of communication within an information system.

This approach to the nature and function of language is indicative of the problems involved in the transmission of language, i.e., communication. An accepted dissection of the process of communication is outlined by Charles T. Meadow in his book The Analysis of Information Systems.[2] In this work he cites a theoretical subdivision of the communication process into five required elements:

> . . . a source, or originator of a message; a transmitter, which usually modifies the form or coding of the message, enabling it to be sent out; a channel, the medium through which the message is conveyed and which may introduce noise into the system; a receiver, which reconverts the form of the message; and a destination, the recipient of the information.[3]

This five part process is illustrated in Figure 1.

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[1] Ibid., p. 60.

[2] Charles T. Meadow, The Analysis of Information Systems (New York: John Wiley and Sons, Inc., 1967)

[3] Ibid., p. 5, citing Claude E. Shannon and Warren Weaver, The Mathematical Theory of Communication (Urbana, Illinois: The University of Illinois Press, 1959), p. 18 et seq.

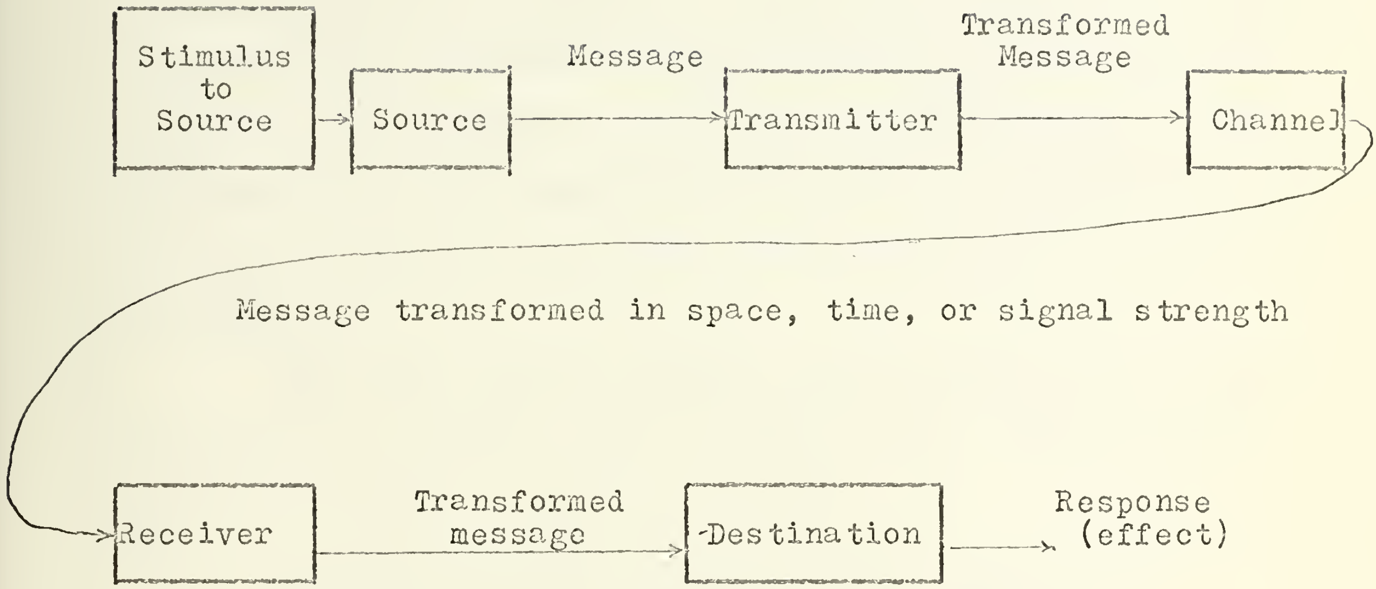

Figure 1.

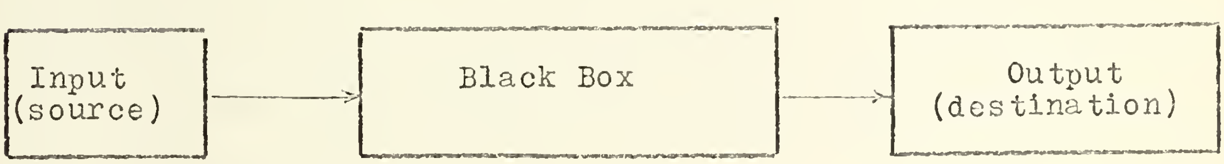

Figure 2.

This reduction of the process to the elements of source, transmitter, channel, receiver and destination establishes an analytic tool for the study of any communicative act. Further, it lends itself to either extreme multiple subdivision or to ultimate simplification. The extreme simplification is the introduction of the euphemistic Black Box. A dilution of the five part process to its Black Box simplification is portrayed in Figure 2.

The Black Box is briefly introduced by Ira G. Wilson and Marthann E. Wilson, who, in discussing a block diagram similar to Figure 2, state:

> It [the diagram] consists of a set of inputs, a "black box," and a set of outputs. Many a systems engineer has hopefully (but vainly) wished some genie would present him with such a "black box" to solve the problem for which he needed the answer yesterday. And many patent claims try to come as near to claiming a "black box" as the examiner will allow.
>
> As it stands, the diagram can represent an automated factory, a telephone-switching system, a digital computer, or even a human being.[1]

The most pertinent analogy for the Black Box is that of a digital computer. The computer can and does perform the Black Box functions of the transmitter, channel and receiver with operations characterized by coding, transformation and the possible introduction of noise.

Information Systems Characteristics

This foregoing discussion of information and the process of communication has been presented to reveal the nature and

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[1] Ira G. Wilson and Marthann E. Wilson, Information, Computers and System Design (New York: John Wiley and Sons, Inc., 1965), p. 12.

possible problems of data flow. An understanding of these peculiarities facilitates the arrangement of raw data into a structure that is useful. This structure is the information system. The word _system_ implies more than a static layering of information. _Webster's Third New International Dictionary_ provides the following pertinent definitions of _system_:

> a. A complex unity formed of many often diverse parts subject to a common plan or serving a common purpose,
> b. An aggregation or assemblage of objects joined in a regular interaction or interdependence; a set of units combined by nature to form an integral organic, or organized whole; an orderly working totality; a coherent unification.[1]

And as a further definition from the same source:

> f. A group of devices or artificial objects forming a network or used for a common purpose (highway system, telephone system, heating system, electrical system of an auto, etc., etc., etc.).[2]

The Systems Engineering Committee of the American Society for Quality tenders this definition:

> A group of interacting human and/or machine elements, directed by information, which operates on and/or directs material, information, energy and/or humans to achieve a common specific purpose.[3]

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[1] _Webster's Third New International Dictionary_ (Springfield, Mass.: G. and C. Merriam Company, 1965), p. 2322.

[2] _Ibid._, p. 2322.

[3] Robert Lloyd Enrick, _Management Planning--A Systems Approach_ (New York: McGraw-Hill Book Company, Inc., 1967), p. 67.

The final cite is taken from the Management Services Handbook,[1] which describes a system and its design as:

> . . . a collection of events which conform to a plan and represents the plan itself. In designing a system a practitioner or analyst provides a means whereby the required information is made available to management for the purpose of control and correction in operating decision areas.[2]

Summing these various definitions yields a general working definition describing a system as a grouping of interrelated and interacting elements having a common purpose or goal. To extend this idea to information connotes the attempt to assemble information into a coherent logical form. In the managerial setting, this form is dictated by the information's usefulness: its ". . . relevancy for setting objectives, for shaping alternative strategies, for making decisions, and for measuring results against planned goals."[3] To obtain the information that is needed to meet these criteria, careful consideration must be given to the identification of essential and subsidiary information; that which is urgent must be organized for rapid transmission; standards of required accuracy must be established and the entire system oriented toward the expected problems of the enterprise. Additional

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[1]Henry DeVos (ed.), Management Services Handbook (New York: American Institute of Certified Public Accountants, Inc., 1964).

[2]Ibid., p. 181.

[3]D. Ronald Daniel, "Management Information Crisis," Management Systems, ed. Peter P. Schoderbek (New York: John Wiley and Sons, Inc., 1967), p. 53.

decisions must be made concerning the thoroughness and scope of dissemination required. Many of these decisions may expose a need for revision of the structure of the organization. Design and maintenance of an information system demands an unrelenting analysis and review of the objectives of the enterprise and a willingness to adjust the system rapidly in the event of changing requirements and pressures.

A great deal of talking and writing has concerned itself with the concept of a total management information system. In its simplest sense, this idea conceives a fully integrated structure of information flow, storage and retrieval that affords management complete and current information on the status of the entire organization. According to Dr. R. L. Martino:

> The primary objective in developing a total management system should be the production of detailed, up-to-the-minute summaries of the past and the use of these summaries to project future activity. In essence, the functions of a total management system are:
> 1. To predict
> 2. To compare the prediction with actual results, and
> 3. To produce the deviations between the predicted and the actual.[1]

Martino then goes on to state that "A total management system, then, produces basically two kinds of information for all levels of management: (1) Predictions based on historical data and simulation [and] (2) Suggested changes of present procedures to make the selected predictions possible."[2]

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[1]R. L. Martino, "The Development and Installation of a Total Management System," Management Systems, ed. Peter P. Schoderbek (New York: John Wiley and Sons, Inc., 1967), p. 121.

[2]Ibid., pp. 121-22.

This stress on the predictive nature of the system does not exclude the use of historical data, as this is the base for the development of projection. It is in the use of the historical data for the formulation of intelligent predictions and forecasts that the service of the system is realized.

Implicit in the theories of total information systems is the compatibility of such systems to automation. The computer's speed, accuracy and considerable storage capacity are ideal qualities, especially suited to solving the problems of information demand. Added to these characteristics is the capability of the computer to perform analyses of the items within its access, using simulation programs written to inquire into specific problems. This characteristic gives the computer the ability to perform the predictive function of a total information system. To a great extent, the computer can perform reasonably derived functions of a Black Box in the information flow. While the design of a management information system may not require the abilities of automatic data processing, it is clear that the impetus to much of the thought and study in information theory has been the growing impact of the computer.

Financial Information Systems

The application of the information system theory and approach to finance involves the same strictures of analysis of need, structure and relevance as the total information system.

The focus of the financial system, obviously, is on the evaluated data that has been reduced to the common monetary language. Information requirements may conceivably not extend beyond the chart of accounts, but usually will. Even extending past the chart of accounts, this basic format of the financial situation will generally remain as a requisite nucleus. The chart of accounts being the portrayal of the accounting system, this is the starting point for the construction of the financial information system. Anthony provides the following advice for an effective accounting system:

> The best system is that which best achieves the following objectives:
> 1. To process the information efficiently, that is, at low cost;
> 2. To obtain reports quickly;
> 3. To insure a high degree of accuracy; and
> 4. To minimize the possibility of theft, fraud, or misrepresentation.[1]

Any accounting system is comprised of some number of formalized recording procedures. Journals, ledgers and work sheets are used according to the rules of the system. From the entries to these prescribed formats come the figures that must yield both the internal and external requirements of an organization. It becomes apparent that an accounting system, to be valuable to an enterprise, must provide more than a neatly compiled historical document. It must also provide, within its scope, a tool for the portrayal of the future in monetary terms.

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[1]Anthony, Management Accounting, p. 109.

Aside from Anthony's concern for honesty and accuracy, the criteria of speed and efficiency are properly translated to the projection of financial conditions that a financial information system can provide. In fact, the key to the semantic distinction between an accounting system and a financial information system is in the considered provision for extended managerial use. The financial information system is constructed with the purposeful application of both internal and external inputs to the service of the overall needs of management. Using the criteria and constraints of the preceding portions of this chapter, a generalized listing of the elements of a financial information system is offered in the following.

Evaluated Data/Information

This starting point of the system has already received some comment in this chapter. The judgments that translate dollar signs into symbols of real activity establish the potential of the entire system. The ability to distinguish the consequential items of financial data is a skill abetted by the rules of traditional financial accounting. Yet, the carefully delineated categories of the chart of accounts may neglect or obscure the items which are of the greatest interest to management. In this area, the role of the controller is vital: his intimate knowledge of the sources and nature of the accounting entries enables him to identify the origin of nonreported information that is required for purposes of

management. Similarly, he can locate and identify those external items of financial data that have meaning to the functioning and aspirations of the enterprise. This insight derives from his requisite involvement in the plans and concerns of executive management and reflects the closeness to management that his staff position maintains.

Dearden's classifications of information are of interest to the controller. As he states:

> The financial system is largely concerned with recurring, documentary, internal and historical monetary information, although in budgeting or capital investment analysis, the system does provide future projections.[1]

This statement is a model of brevity in its consideration of the projection capacity of the financial information system. Again, this function has been discussed and an example provided of the flexibility of information demands that may occur.

Communication

Once the data has suffered the rigors of its transformation into information, the real problem of transmission arises. The terms of accountancy, for all their attempts at specificity, find frequent argument even among the accountants. The financial information system should endeavor to relate its stores of information in terms that are as close to the comprehension of both its internal and external

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[1]Dearden and McFarlan, Management Information Systems, p. 7.

destinations. It should also tailor itself to the changing capacities of this comprehension, remembering that warning about the transiency of meaning of the spoken and written word (and number).

A consideration of this continuing communication problem is the prevention of the compiling of reports for purposes no longer of concern. This is a caution usually mentioned under the category of systems maintenance, but may be a larger problem to the entire organization. The communication process requires the consonance of the intention of the reporter and the desires of the receiver to be efficient or, at the extreme, even workable. Therefore, the reporting mechanism must be attentive to the needs of the office that it exists to service. This is of tremendous importance in the financial context where fluctuations, over time, in costs of materials, labor and money can easily destroy any equation of past or present performance to the time frame of the question seeking an answer.

To assemble the items of the accounting system and the other items of financial information judged necessary into a full financial information system, the definitions relating to interaction and interrelationship establish the guide. This dictates a structure of financial information that is sensitive to the effects of changes in inputs and internal changes. It must recognize the consequences within the entire structure of variations in specific areas. This objective of construction

can be approached by careful analysis of historical information. This information, primarily the entries of financial accounting, can yield, under analysis, a framework of projection of future events and relationships. This translation of historical, internal, documentary information into a tool for future planning is accomplished by the construction of a model. The most common financial model is the budget, a plan for the future reduced to monetary terms. The simplest basis for the development of a budget is the adjustment of past budgets for the anticipated conditions of the budget period. These conditions may be derived from deviations noted in the comparison of past budgets with actual performance or may also include estimates based upon potential external stimuli. In either case, the interaction of financial elements is considered and the financial planning function is accomplished by the use of all pertinent financial information.

Far more complex models are being used by corporations and other enterprises for the purposes of financial analysis and planning. The concept of the organizational financial model has been given impetus by the increasing use of computers. In an article discussing the construction and initial implementation of a comprehensive financial model, George W. Gershefski states the following:

> The model incorporates all pertinent information about the company and puts it in an analytical framework that affords better-grounded decisions. The system accomplishes this with great speed: the central processor time required to simulate one year of operations is fourteen seconds.[1]

This computerized financial system and its model was developed by the Sun Oil Company, but is representative of the direction of many concerns toward the automation of financial information. From this model, a variety of pro forma statements or reports can be rapidly generated, including the income statement, capital investment schedule, statement of earnings employed and stockholders' equity, tax report, rate of return analysis and the financial and operating summary.[2]

The obvious advantages of the computer's speed, information retrieval, accuracy and versatility are reinforced by less apparent advantages that accrue to systems in the process of development. The nature of the computer in its manipulation of numbers illuminates the numerical interrelationships of financial figures and expands the scope of the system merely by force of analysis.

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[1]George W. Gershefski, "Building A Corporate Financial Model," <u>Harvard Business Review</u> (July-August, 1969), 62.

[2]<u>Ibid.</u>, 69.

CHAPTER IV

THE CONTROLLERSHIP FUNCTION IN THE UNITED STATES MARINE CORPS

The preceding three chapters have supplied a background of information on the performance of the controllership function. This chapter is intended to relate the generalities of the foregoing to the actual accomplishment of the function in an operating enterprise, the United States Marine Corps. Focusing the survey of the methods and procedures of controllership on any organization will reveal existence of the often mentioned peculiarities of tailoring to objectives, and this will be also affected by the setting of the Marine Corps. Certain functions of the controller that were listed in Chapter II are either nullified or considerably modified in nature and in scope by the unique situation of a governmental agency. The most apparent of these is the commercially complex problem of seeking a source of funds: shopping the money market. Another significant exception is the absence of concern about the effects of corporate taxes within government. Additional deviation of emphasis is seen in the excessive (by commercial standards) amount of time and effort the military controller devotes to disbursement functions. Other factors of differing emphasis and concern will be noted in the

remainder of this chapter.

To examine the Marine Corps' performance of the controllership function, a review of its recent history and current assigned responsibilities will serve as the introduction, followed by a dissection of the function into the four major areas discussed in Chapter II of accounting, reporting, control and planning.

Origin of the Controllership Function in the U.S. Marine Corps

The controller that has been discussed throughout the preceding portion of this paper now changes his name to comptroller. It is not by the assumed elegance of the English scribes mentioned in Chapter II but rather by the direction of the National Security Act of 1949 (PL 81-216) that this spelling obtains. The Act established the position of the Assistant Secretary of Defense (Comptroller) and that of a comptroller of each military department. The mission and duties of the Defense Comptroller and the comptrollers of the military services are delineated in Title IV of the Act:

> Section 401
>
> The Comptroller shall advise and assist the Secretary of Defense in performing such budgetary and fiscal functions as may be required to carry out the powers conferred upon the Secretary of Defense by this Act, including, but not limited to, those specified in this subsection. Subject to the authority, direction, and control of the Secretary of Defense, the Comptroller shall--
>
> (1) Supervise and direct the preparation of the budget estimates of the Department of Defense; and

(2) Establish and supervise the execution of--

(a) principles, policies, and procedures to be followed in connection with organizational and administrative matters relating to--

(i) the preparation and execution of the budgets,

(ii) fiscal, cost, operating and capital property accounting,

(iii) progress and statistical reporting,

(iv) internal audit, and

(b) policies and procedures relating to the expenditure and collection of funds administered by the Department of Defense; and

(3) Establish uniform terminologies, classifications, and procedures in all such matters.

Section 402

(a) The Secretary of each military department, subject to the authority, direction, and control of the Secretary of Defense, shall cause budgeting, accounting, progress and statistical reporting, internal audit and administrative organizational structure and management procedures relating thereto in the department of which he is the head, to be organized and conducted in a manner consistent with the operation of the Office of the Comptroller of the Department of Defense.

(b) There is hereby established in each of the three military departments a Comptroller of the Army, a Comptroller of the Navy, a Comptroller of the Air Force, as appropriate in the department concerned. There shall, in each military department, also be a Deputy Comptroller. Subject to the authority of the respective departmental Secretaries, the comptrollers of the military departments shall be responsible for all budgeting, accounting, progress and statistical reporting, and internal audit in their respective departments and for the administrative organizational structure and managerial procedures relating thereto.[1]

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[1]National Security Act Amendments of 1949, U.S. Code, Vol. X, sec. 5001 (1949).

The uniqueness of the context of the Marine Corps in the execution of the directives of this Act is further enhanced by the position of the Corps within the structure of the Department of Defense. The Marine Corps is not a department, being a service within the Department of the Navy. The National Security Act of 1947, as amended, provided for the composition of the Department of Defense as three military departments and four services.[1] The Marine Corps is the odd-man-out. The exception of the Marine Corps from the status of a department does not, of course, remove the requirements of budgeting, accounting, etc., that are incurred by its status as a service. Implementation of Title IV by the Marine Corps took specific note of the wording of the Act and the absence of the word comptroller at the Headquarters level is partially indicative of this notice. The accomplishment of the statutory requirements of the Act was initially assigned to a fiscal division under the control of the Quartermaster-General.[2] This additional duty of the Quartermaster-General was separated from him in 1953 and became the primary duty of the newly established office of the Fiscal Director of the Marine Corps. The

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[1]National Security Act of 1947, P.L. 253, 80th Cong., as amended by Public Law 36, 81st Cong. and Public Law 216, 81st Cong. (1949).

[2]Kenneth W. Condit and Major John H. Johnstone, USMC, A Brief History of Marine Corps Staff Organization, Marine Corps Historical Reference Series, Number 25 (Washington, D.C.: Historical Branch, G-3 Division, Headquarters, U.S. Marine Corps, 1963), p. 28.

continuation of the preference for the word <u>fiscal</u> over that of <u>comptroller</u> was more than a matter of statutory semantics. Comment on this choice of title is provided by Lieutenant Colonel H. J. Redfield III, USMC:

> In the 1953 financial management reorganization of the Marine Corps, great stress was placed upon not using the word "comptroller," . . . substituting the word "fiscal." The connotation between these two words is important, for it represents fundamental Marine Corps philosophy regarding financial management. In the Marine Corps, the word "fiscal" connotes the collection, accounting, analysis, and dissemination of financial information for <u>use by</u> a commander; the word "comptroller," on the other hand, connotes the collection, analysis, and dissemination of such information for <u>control of</u> a commander.[1]

This rather extreme concern for innuendo and its questionable linguistic accuracy are defended by the writer in conceptual terms:

> Marine Corps philosophy is that financial management is a part of balanced staff action. It does not determine mission but rather is a primary consideration in the means and time-phasing of its accomplishment.[2]

In any case, whether from the desire to avoid needless replication of the role and duties of the Office of the Navy Comptroller, or from the desire to define philosophy in title selection, or both, the Marine Corps assigns its top level controllership functions to the Fiscal Director of the Marine Corps. The incumbent of this office is charged with the

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[1]H. J. Redfield III, LtCol., USMC, "Financial Analysis and Review in the Marine Corps," <u>The Armed Forces Comptroller</u>, XIV, No. 3 (July, 1969), 4-5.

[2]<u>Ibid</u>., 5.

following duties:

> 1. *Mission.*--The Fiscal Director of the Marine Corps is responsible to the Commandant of the Marine Corps for the formulation of fiscal policy and for fiscal and disbursing administration in the Marine Corps, to the end that fiscal and disbursing actions, policies, and procedures of the Marine Corps will be in conformity with law, good business practice, and applicable policies, procedures and regulations issued by higher authority.
>
> 2. *Functions.*--
>
> (a) Assists, advises, and acts for the Commandant of the Marine Corps in all matters pertaining to fiscal policy and administration.
>
> (b) Has complete responsibility for maintaining records, reporting and administrating all appropriated funds . . . .
>
> (1) Develops and supervises an integrated financial accounting system.
>
> (2) Is responsible for accounting for all appropriated funds. . . .
>
> (3) Develops and supervises all financial reporting and appropriate cost and plant accounting systems to accumulate data for command analysis and action.[1]

The trepidation about the philosophical impact of office title at the top level does not pervade the structure of the general staffs of commands subordinate to Headquarters, Marine Corps. Specified in the Tables of Organization and in the manuals for staff guidance is the Office of the Comptroller. The latest pending revision to the formal guideposts of staff responsibilities assigns the following comment and duties to the comptroller:

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[1]U.S. Marine Corps Headquarters Order P5000.3A, Headquarters Manual (Washington, D.C.: Government Printing Office, 1964), Chapter 6, p. 3.

The Comptroller is the principal staff assistant in matters pertaining to financial management. The Comptroller has staff responsibility for the following:

a. Budgeting

(1) Preparing guidance, instructions, and directives for budget matters.

(2) Reviewing the resource requirements and justifications for the various financial programs of the command.

(3) Compiling the annual budget.

(4) Recommending allocation of funds available for approved operating programs (including pay of civilian personnel and revisions thereto when required.)

(5) Initiating action for financial adjustments required by changes in the amount of funds made available.

(6) Improving financial management efficiency.

b. Accounting

(1) Maintaining required records, including records of obligations and expenditures against allotments and project orders.

(2) Maintaining records for the plant property account and for financial transactions of all classes of property.

(3) Providing for execution of tasks involved in civilian pay, leave, and retirement.

(4) Preparing financial accounting reports.

(5) Supervising cost accounting operations.

(6) Submitting property returns.

(7) Supervising time keeping operations.

(8) Preparing civilian payrolls.

c. Disbursing

(1) Accomplishing payment of military and civilian payrolls, travel and per diem allowances, and public vouchers.

(2) Collecting proceeds of sales and other funds for credit to the United States.

(3) Registering of allotments, savings bonds and savings deposits.

(4) Preparing disbursing reports and returns.

d. Progress and Statistics

(1) Developing guides and criteria for the collection and coordination of statistical data.

(2) Supervising the preparation of special statistics.[1]

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[1]FMFM 3-1, rev. Command and Staff Action (Quantico, Virginia: Marine Corps Development and Education Command, 1969), p. 16.

Throughout the foregoing, from the broad assignments to the military departments of the National Security Act to the more specific directives of the Marine Corps Staff and Command Action manual, there is a strong sense of consonance and continuity. The key words are "budgeting, accounting, reporting, audit and disbursing." The equation of these terms to the accepted categories of this paper, accounting, reporting, controlling and planning is obvious, with the exception of the relatively mechanical process of disbursement. The remainder of this chapter will deal with the processes that support this equation.

A groundwork of terms and definitions of major items of financial relevance within the Department of Defense, and thus, the Marine Corps is listed here to provide a basis of understanding for the discussion to follow.

> Operating budget.--An approved operating plan which is the basis of authorization and financial control of expenses and selected working capital in the execution of a program or programs.
>
> Operating activity.--A major organizational subdivision or entity that is responsible for execution of an identifiable segment of a program.
>
> Program element.--The basic building block of the Five Year Defense Program that is a description of the mission to be undertaken and a collection of the organizational entities identified to perform the mission assignment. Elements may consist of forces, manpower, materials, services and associated costs as applicable.
>
> Functional category.--Functional categories are designed to collect expense information for one or more of the following reasons: (1) the cost of the function is required to meet restrictions made by the Congress or to meet the needs of outside parties; (2) information on the cost of a function is useful in deciding on the authorization to be provided to an operating activity; (3) the cost of the function provides a control tied to an underlying cost accounting system needed for management of the function, and (4) the cost of the function is useful in making comparisons and special analyses of cost.

> *Expense elements.*--Expense elements specify the type of resource being consumed in the funtional category or program element. This information is useful in planning requirements and in the analysis of performance. This information is also needed for "object class" reports prescribed by the Bureau of the Budget and other outside agencies.[1]

These terms reveal the program orientation of the financial management system within the Marine Corps and the Department of Defense as a whole. The execution of the concept and its effect on the Marine Corps Comptroller will now be discussed.

The Accounting Function

The Marine Corps sharés with the commercial sphere the requirement and responsibility to compile detailed records of its financial transactions. The accounting function also shares the dual aspect of providing information for both internal and external consumption. As is frequently the case, the procedures used for the preparation of financial accounting reports differ in some respects from the procedure used for management accounting. The areas of difference between the accomplishment of financial accounting and management accounting will be discussed under those two categories.

Financial Accounting

The external parties with an interest in the financial transactions and stewardship of the Marine Corps have a constitutional right to that information. The Constitution of

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[1]U.S. Department of Defense Instruction 7220.20, *Expense Data Requirements*, dated April 11, 1968, p. 2.

the United States provides:

> No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law, and a regular Statement and Account of Receipts and Expenditures of all public Money shall be published from time to time.[1]

The use of the word "Appropriations" is significant as it remains the term describing the authorization by Congress to release Treasury monies for specified purposes.[2]

It is clear that the recipients of the product of financial accounting are not the arrayed forces of stockholders, advertising executives, or the Securities and Exchange Commission, etc. The audience, if that is a fair term, is composed of the collective elected proxies of the real equity holders, the public. The objective of the financial accounting procedure in the Marine Corps is to reveal to the public its return on the investment of its tax investments, as interpreted by its chosen securities brokers, the members of Congress. Compilation of the figures for this purpose is conducted along formal lines and adheres to "generally accepted accounting principles," but the principles involved would mystify and perhaps horrify the American Institute of Certified Public Accountants.[3] The accepted principles, in this case, are those envisioned by the writers of the Constitution, again the word "appropriation."

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[1]U.S., Constitution, Art. 1, sec. 9.

[2]U.S. Marine Corps Order P7300.8A, Financial Accounting Manual, Chapter II, p. 3.

[3]Supra, p. 13.

Before the discussion of the mechanics of appropriation accounting, it should be pointed out that the Congress is not the sole recipient of the external accounting efforts of the Marine Corps; the General Accounting Office, the Bureau of the Budget, the Treasury Department, and the Department of Defense also receive the financial accounting output. As all these information destinations have some degree of control or influence over the sort of information they desire, the stewardship accountability retains sufficient flexibility to adjust to the demands of these entities. These requisite flexibilities are of a minor, incremental nature and do not have a startling effect on the year to year financial accounting procedures, but must be considered as potential sources of major influence.

The key to the understanding of the external accounting requirements of the Marine Corps (and the other services within the Department of Defense) is to appreciate the meaning and effect of the appropriation accounting techniques and rationales. The charts of accounts are directed toward the relation of funds used or promised under a series of general financial categories, rather than the commercial and academic structure of the double entry equation. The primary interest of the Congress is the assurance that spending is within the bounds established by their extension of the privilege of drawing on the Treasury. As Melvin Anshen notes:

> These needs have historically been oriented toward safeguarding the integrity of appropriations against careless, ill-informed, and/or maleficent administrators in the executive departments. Appropriation accounting is, therefore, an instrument for the control of spending.[1]

To accomplish its role as the watchdog of the public purse, Congress has established an appropriation structure in which identifiable categories demanding funds are listed by appropriation titles. The Marine Corps receives funds in four direct appropriations:

1. Military Personnel, Marine Corps (MPMC)
2. Reserve Personnel, Marine Corps (RPMC)
3. Operations and Maintenance, Marine Corps (O&MMC)
4. Procurement, Marine Corps (PMC).

In addition to these direct appropriations, the Marine Corps receives funds from two revolving funds, the Marine Corps Stock Fund and the Marine Corps Industrial Fund, and from indirect appropriations derived from both the Navy and the Department of Defense.

Accounting for the needs and desires of Congress amounts to the recording of the extent and progress of obligations made under each titled appropriation. This is accomplished by means of a ledger established for each appropriation, broken down into budget activities and further subcategorized into accounting projects.

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[1]Melvin Anshen, "The Federal Budget as an Instrument for Management and Analysis," Program Budgeting: Program Analysis and the Federal Government, ed. David Novick (Cambridge: Harvard University Press, 1965), p. 12.

Management Accounting

The recording and use of financial data for managerial purposes has been an area of considerable recent revision. The system of appropriation accounting that serves the requirements of Congress has been recognized as inadequate for management needs. Accordingly, throughout the Department of Defense, a fuller more meaningful system of management accounting and financial structure has undergone varying stages of implementation throughout the decade of the Sixties. The conceptual basis of the change has been in the decentralization of financial responsibility within the services. Thus, within the Marine Corps, designated subordinate levels of command have become responsibility centers, accountable for the expense of their operation. The accounting guidance for this decentralization is embraced by the financial planning, programming and budgeting system referred to by the acronym PRIME (for PRIority Management Effort). This outgrowth of the "performance budgeting" recommendations of the Hoover Commissions has been envisioned as a device of increased managerial utility and efficiency that relates the actions of responsibility centers to the attainment of specified programs and objectives. The focus of the intent of Project PRIME was described by the Secretary of Defense in 1966:

> (1) A new accounting structure is being designed with accounts arranged so that they will provide information in the form needed (a) for programming, (b) for budgeting, and (c) to assist management in operations. This will permit the

integration of the programming, budgeting, and management processes.

(2) The focus will be on outputs and on resources used, that is, on expenses. This requires that the costs financed separately by the Military Personnel and Operations and Maintenance appropriations be merged for DOD management purposes, although the separate identify of these appropriations will be maintained so as to meet external requirements unless the Congress requests that they be combined.

(3) To the extent feasible, consumable items will be moved from the procurement appropriations to the operating appropriations, and capital items will be moved from the operating appropriations to the procurement appropriations. [This purification process will permit a more accurate reflection of actual operating expenses chargeable to the operations and maintenance appropriations.]

(4) Working capital funds or accounts will be used extensively to hold resources in suspense between the time and place of acquisition and the time and place of consumption. [The extension of working capital permits the charging of items paid from investment-type appropriations to be charged to operations and maintenance appropriations when issued.]

(5) Management reports will be structured in terms of organizational responsibility and will relate actual performance to planned performance and actual expenses to planned expenses.[1]

The implementation of these concepts in the Marine Corps has expanded considerably the scope of the accounting function. Not only is the requirement for increased detail of accounts relocated at lower levels of management, i.e., below the top level or Headquarters, Marine Corps level, but the techniques of entry are made more complex by the adoption of the accrual convention. The characteristics of the system are presented in a Marine Corps publication:

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[1]U.S. Secretary of Defense Memorandum to the Military Departments, et al., dated June 13, 1966, pp. 1-2.

> An integrated double-entry set of accounts is established which provide the following:
>
> --Accounts reflecting operating budget authority made available, and the status of this authority.
>
> --Accounts for liabilities and receivables.
>
> --Expense accounts.
>
> --Integration of cost accounting records with the general books of account.
>
> --Accounts to record costs for which the benefits are applicable to future periods.[1]

As indicated in the statement of the Secretary of Defense, the primary account of the responsibility centers is a merged account for operations, combining the appropriation accounts for Personnel and Operations and Maintenance. This account is designed to insure visibility of the resources of men and materials used by the center in the attainment of its objectives. This theoretically sound approach to measuring the financial transactions of subordinate units is somewhat tainted by fiction, however. Consider the expenses attributed to personnel. In an address at the Naval Postgraduate School at Monterey, California, Brigadier General Edwin H. Simmons, USMC, then Deputy Fiscal Director of the Marine Corps, described the accounting mechanism for personnel expense:

> 1. The Fiscal Director sends the expense operating budget to the command. The Military Personnel Expense authority in that EOB is based on the authorized allowance or manning level for that particular command.
>
> 2. Actual strengths are reported by the command on their unit diaries which are fed into the personnel accounting system.

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[1]U.S. Marine Corps Order P7300.9B, Financial Guidebook for Commanders, dated June 19, 1969, p. 26.

> 3. A computer run at Headquarters extracts the strength of the command by pay grade, branch of the service, and program element and puts it in the form of a monthly military personnel expense report. This report goes to the COA /the Central Operating Activity, an office in the budget branch of the Fiscal Division/.
>
> 4. These figures then become the monthly expense control figures. The COA sends these figures back to the responsibility center which incorporates them into its PRIME reports.
>
> . . . .
>
> . . . The commander is fed his own military pay costs on a statistical basis. No Marine is fired or hired on the basis of these reports. No one is joined to the command or transferred away.
>
> The one thing that we do gain by all this effort is to give the commander visibility as to his military pay costs. We make him realize--that is, if this truth had previously escaped him--that Marines don't come free.[1]

The effect of this is to laboriously decentralize nominal personnel charges while, in fact, maintaining personnel expense responsibility at the highest level. That such an exercise in complimentary accounting is worth the educational benefits claimed for it is open to question.

The Reporting Function

As noted in the discussion of the accounting function, the external reporting requirement for the Marine Corps is a matter of constitutional imperative. In addition to this statutory requirement, there exist the administrative requirements of the Department of the Navy and the Department of Defense. There is some element of internal usefulness in all these external reports, however, and they constitute the bulk

[1]Edwin H. Simmons, Brigadier General, U.S. Marine Corps, Deputy Fiscal Director of the Marine Corps, an address before the Defense Management Systems Course, January 30, 1969.

of the internal reporting requirements from the responsibility centers.

The first of these reports is the NavCompt (for Navy Comptroller) Form 2170, a sample copy of which is attached as Appendix A. The title of this report, the Expense Operating Budget Financial Report is generally descriptive of the purpose of the report. Its function is described as:

> . . . a summary type report by program/subhead containing the essential elements for both obligational and expense authority control. It provides a summary view of the activities' monthly financial transactions and reflects the financial status at the end of the period.[1]

This five part form is a composite of the obligational/appropriation accounting required for Congressional purposes and the program/expense oriented intent of Project PRIME. It is also a trial balance sheet reflecting the balance of each General Ledger Account. Consolidation of the reports from responsibility centers within the Marine Corps is performed by the Fiscal Division for further reporting to the Comptroller of the Navy.

The Operating Budget/Expense Report, NavCompt Form 2168, an example of which is attached as Appendix B: This more detailed report is submitted by field commands monthly and a cumulative report in the same format is submitted annually. The greater detail results from the breakdown of expenses by cost center. The detailed nature of this and its adaptability

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[1]U.S. Marine Corps Order P7300.9B, Financial Guidebook for Commanders, pp. 26-27.

to automation may lead to its eventual replacement of other less formal individual cost reports now in use.[1]

The Performance Statement Report, NavCompt 2169, an example of which is attached as Appendix C: This report is submitted by field commands monthly. As well as reporting financial expenses, it also reports statistical work units, although the reporting of these units remains optional in the Marine Corps.[2]

The Functional Category/Expense Element Report, NavCompt 2171, an example of which is attached as Appendix D: This report is also submitted monthly from the field. Its function is described as:

> This report displays monthly program cost, or expense, by functional/subfunctional category and by expense element and provides higher authority with essential information for operating expenses in the Five Year Defense Program. This report has no management application for the local commander.[3]

The Military Service Report, NavCompt 2182, an example of which is attached as Appendix E: This report very simply provides a head count of personnel as of the first day of each month. Its purpose is essentially divorced from the personnel accounting system and is used for high level estimates of personnel costs.

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[1]Brig. Gen. Edwin H. Simmons, Address at Monterey.

[2]U.S. Marine Corps Order 7301.56B, Financial Reporting Under Department of Defense Resources Management System (Project PRIME) for Fiscal Year 1969 and Subsequent, Change 1, dated September 17, 1969, p. 8.

[3]Financial Guidebook, pp. 28-29.

All five of the preceding reports are adaptable to automated preparation and submission procedures and are reported by means of punch cards at activities having this capability.

All of these reports are consolidated at Headquarters, Marine Corps, within the office of the Fiscal Director, and the consolidated reports are further submitted to the Comptroller of the Navy.

In addition to these formally prescribed reports, there is administrative provision for internal report requirements within the responsibility centers. It is intended that these reports would reflect an actual management need of the commander at that level and be within the capabilities of the center to compile.

The Control Function

The value of the reports of the Marine Corps comptroller to his commander and the composite reports of the comptrollers to the Fiscal Director of the Marine Corps is a function of the adequacy of the reporting formats. Control is established when these reports provide financial information of operating import to both the commanders and to the Commandant of the Marine Corps via his Fiscal Director. Recalling the criteria of Chapter II, "The management function of control is the measurement and correction of performance so that business objectives and plans are accomplished."[1]

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[1] *Supra*, p. 21.

Fiscal objectives in the Marine Corps are simply a matter of budget adherence in the short run. To meet this short term goal, sufficient information is provided by the report forms discussed previously in this chapter and the benefit of the doubt is given to those report requirements that are designed and required at the responsibility center level. The element of reporting period standards is defined by the yearly budget, which enjoys a real amount of participative formulation.

This aspect of the controllership function is of minor significance, regardless of the hours of high level arithmetic it may consume. The Marine Corps has a device of simplification in this respect that is not shared by commercial counterparts, the swift reprisal of federal law. Although this may be a matter of degree, the difference is magnified by the federal oaths and contracts of the commanders and comptrollers that administer the public funds.

Flexibility of the standard, i.e., the budget, is provided for by means of periodic evaluation of objectives and funds required. A formal Mid-Year Review is required from the responsibility centers:

> Annually during the third quarter, an extensive and thorough Mid-Year Review is conducted on all appropriations which provides an up-to-date basis for reprogramming of funds and lays a firm foundation for supplemental requests when necessary . . . . This review provides a systematic procedure for highlighting program deficiencies and potential sources of funds. This process also requires each level of management to take a serious look at the current status of programs and to plan operations with

> knowledge of available funding and status thereof. . . . When local economies or other circumstances dictate, commanders should use the Mid-Year Review to report any funds held in excess of requirements in order that redistribution of funds can be made to other commands.[1]

The Marine Corps policy of avoiding a corps of financial specialists has a beneficial effect on the control function in that the occupants of comptroller billets have experience in executive functions and a comprehensive approach to the problems and objectives of command.

The Planning Function

As mentioned, the budget is the embodiment of the planning function and, as such, its preparation, analysis and execution involve the bulk of the time of the Marine Corps Comptroller. There are restrictions on the flexibility of the Marine Corps budget that are not normally encountered in the commercial sphere, as the objectives of the various responsibility centers are largely dictated by the specifications of the Five Year Defense Program (FYDP). Budget preparation is therefore accomplished within the constraint of the established goals of the FYDP.

The budgeting procedures follow a recurring specified cycle. The broad view of this cycle is represented in Figure 3. As indicated in the figure the internal budgeting aspect of the process in the Marine Corps takes place when "Budget

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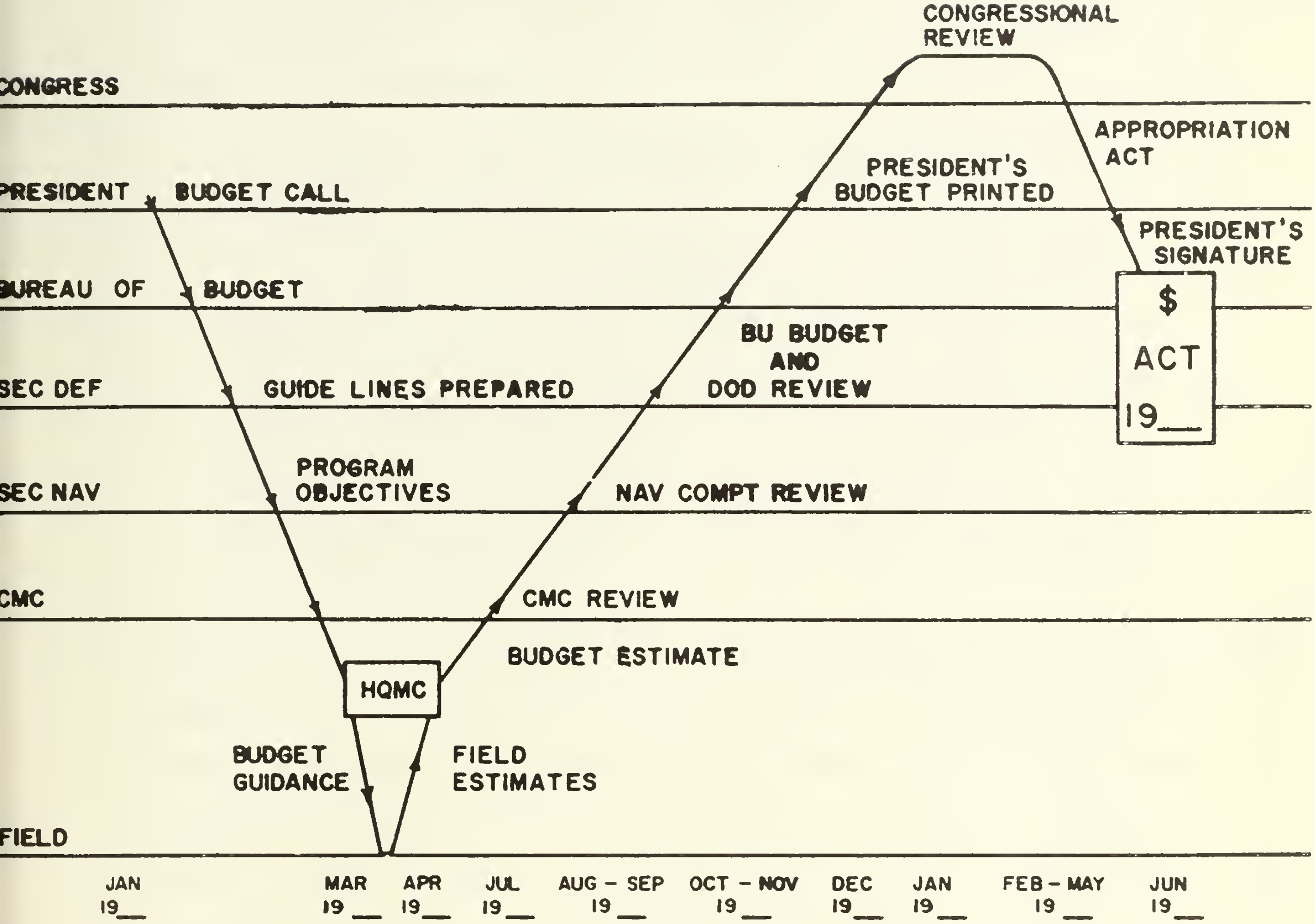
[1]U.S. Marine Corps Order P7300.9B, Financial Guidebook for Commanders, pp. 17-19.

Fig. 3.—BUDGET FORMULATION FY 19 __



Guidance" is provided to field commands by Headquarters, Marine Corps (HQMC), based on the Program Objectives defined by the Secretary of the Navy. Brigadier General Simmons describes the process:

> The one thing that a field commander can, to a significant extent, determine and manage is his operating expense.
>
> The field commander bases his operating budget on his own intimate knowledge of his command--its mission and operations--as tempered by the annual field budget guidance that goes out from Headquarters, Marine Corps. This guidance covers three years: current year, budget year, and budget-year-plus-one. We try to put into this package all the planned actions which have a budgeting impact. It goes out in two parts, October and March, and details for the commander, as best as can be determined, his planned workload and his projected personnel strength for the budget year and budget-year-plus-one.[1]

In response to this guidance, the command/responsibility center submits the three specified year budget estimates to HQMC no later than April 30 of the current year. The current year estimate contains actual expenses and projected estimates, based on the current operating budget fund authorizations. The budget year estimate is a revision of the prior budget-year-plus-one estimate, based upon promulgated ceilings that are assigned by HQMC based on FYDP program element evaluation conducted at HQMC. This estimate is also called an apportionment request, as it is a structured appeal for an amount of the total Marine Corps budget for the coming fiscal year. The

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[1] Edwin H. Simmons, Brigadier General, USMC, "Budgeting in the Marine Corps," The Armed Forces Comptroller (March, 1969), 26-27.

budget-year-plus-one estimate is a gross requirement budget for submission through budget channels to Congress as part of the President's Budget. This is the extent of future financial planning required at the field level commands.

Longer range planning is conducted at HQMC as well as the planning for the three periods of budget estimate. Of financial interest is the formulation of the Marine Corps Mid-range Objectives Plan (MMROP), which sets forth objectives and programs for the period beginning July 1st of the current fiscal year on through the tenth fiscal year from that date. As decisions and choices among alternatives are made in the development of this plan, costs are estimated and overall fiscal effect evaluated by means of the Marine Corps Cost Model, an econometric simulation. The Fiscal Director of the Marine Corps is a member of the Advisory Committee for the Cost Model.[1]

The Composite Function

The controllership function in the Marine Corps shares, to some degree, all the component parts of the commercial controllership. The differences previously mentioned, the major dissimilarity in source of funds, and the functional emphasis on disbursement, are joined by numerous gradations of details. There is a noticeable limitation of flexibility in

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[1]U.S. Marine Corps Order 5250.1, Policies and Procedures for the Development and Implementation of the Marine Corps Cost Model; dated June 27, 1966.

the Marine Corps that is not characteristic of the commercial controllership. Budget limitations at the highest level of the Marine Corps are imposed by constraints other than the current cash position or credit standing of the Marine Corps. Report criteria are largely dictated from external sources and the managerial interpretation of these reports has a comparative lack of depth of importance. The accounting system is only vaguely similar to the more comprehensive financial and management systems of the larger commercial enterprises.

Yet, the basic similarities do exist. The same essential functions are performed in the office of the Marine Corps Comptroller and the corporate controller. Mutual appraisal of the other's performance could not but yield an opportunity for insight and benefit; each system has its strong points suited to its objectives and traditions.

CHAPTER V

APPRAISAL AND PREDICTION

No point is more redundant in the literature of controllership than that of the necessity of adapting the function to the objectives and needs of the organization being served. As shown in the foregoing portions of this paper, the tailoring process is largely a matter of emphasis on particulars. Yet beyond this matter of degree, there is an underlying force of philosophy in situations where the objectives are basically disparate. The dichotomy of mission between a service within the Department of Defense and a large manufacturer of automobiles produces a difference of attitude and purpose among the individual members of each organization that surpasses the variations in their charts of accounts. The measurement of successfully managed operations is adjudged in widely contrasting terms. This contrast is most severe when the service is performing in armed conflict.

The idea of profit is a good example of the difference in conceptual approach. As a device of maximizing the return to the stockholders, the attainment of profit becomes a consistent objective in the commercial enterprise. The return to the public that the service seeks is largely an intangible

commodity: maximum combat effectiveness, judicious use of available funds, optimal training and readiness, etc., difficult goals to measure. The determinants of service efficiency include a far greater proportion of qualitative factors than those of the commercial sphere.

These divergencies of philosophy and objective are a vital consideration in the comparison of the financial management function between a service and any individual business concern.

System Application and Automation

The Marine Corps financial information system is based on the formal requirements of the PRIME accounting system and the reports that must be generated in response to that system. It includes the documentation of historical, internal, recurring information in its monthly reporting format. It additionally allows for projections and the influence of external factors in the budget estimate process. Great care is taken to avoid problems of financial communication by the design of a specific and rigorous series of definitions. The desires of the recipients of information are provided for, as demonstrated in the special reporting format retained for the needs of Congress. Information is distinguished from data by the definitive structure of the sources of funds and the limitations on the expenditure of these funds. All in all, it is a neat package, meeting the essential of systems definitions, as far as it goes.

It is worth noting the extent of the use of automation in the financial information system is limited to the compilation and storage of historical information. The computerized simulations of the Cost Model are the sole major attempt at prediction using the capabilities of the computer. Also worth noting is the fact that those reports that are compiled by automatic data processing equipment are submitted, at the minimum, on a monthly basis. The current capabilities for instantaneous input and retrieval are not realized by the operating Marine Corps Comptroller.

The trend of things to come may be indicated by the designed computer adaptability of the PRIME system. Although the system currently is marked by such an obvious inefficiency as the roundelay described in the personnel expense accounting, it would be safe to say that eventual efficiency will be attained. With that efficiency will be a continuing evaluation of the potential contributions of the computer.

The Outlook

The adoption by the Department of Defense of accounting and financial management systems more analogous to the commercial world increases the comparability of these two areas of endeavor. It is considered that this comparability has been demonstrated by this paper. If present tendencies hold, there will continue to be attempts to incorporate the proven management methods of industry into the functioning of the Department of Defense. The use of business consulting

firms to evaluate the procedures of the various services is an indication of this tendency, as is the appointment of major figures in the business community to high positions within the Department. This business rationale has modernized some patently outdated procedures and introduced its share of confusion as well. The Commandant of the Marine Corps predicted this confusion in testimony before the Senate Appropriations Committee prior to the implementation of Project PRIME:

> . . . The PRIME system is not just a simple revision of current budgeting and accounting. It superimposes a new system over much of the present and encompasses rather complicated and expensive changes. . . .
>
> My chief concern is with the adequacy of our resources (money, people, and machine capability) to supply and make effective use of this significantly increased detail required by the PRIME system.
>
> The new concept defined in Project PRIME requires a higher caliber of personnel trained to accumulate, analyze, draw conclusions from the data derived in the system, and recommend management actions.[1]

This statement reflects an appreciation for the difficulties involved in the introduction of change and an admission that the change demanded a range of expertise beyond that available at the time. Since that statement, the Marine Corps has done an admirable job of adapting.

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[1]U.S. Congress, Senate, Second Supplemental Appropriation Bill, 1968, Hearing before the Committee on Appropriations on H.R. 17734, 90th Cong., 2d sess., 1968, p. 220.

There is also a hint of wariness revealed in the Commandant's statement and this may take on increasing significance in the light of future efforts to modernize, reorganize, or otherwise sophisticate the financial system within the Marine Corps. The business of business is business, we are told; the business of the Marine Corps is not. Good business practices in the Marine Corps are a means rather than an end and must remain in this subsidiary role, contributing to, but not dictating the assignment and performance of the Marine Corps' mission. There can be no argument that the Marine Corps Comptroller is staff and his role is advisory.

There is much to be gained by the continuing evaluation of the accomplishment of the controllership function in the private realm, but there is a great danger of misplaced emphasis that would result from the adoption of sophisticated procedures for their own sake.

As the computer wedges its way into the financial information system of the Marine Corps, there will have to be a constant maintenance of skepticism of the capabilities that are tremendous but irrelevant. Progress will have to be regulated by the considerations of mission and capabilities. There is much room for improvement in the controllership function and practice, in general, but the controller/comptroller must maintain a close relationship with the objectives of management as the process of change continues its eternal march.

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NAVCOMPT FORM 2170 (12-66)
S/N-0104-706-0080

NAVCOMPT 7000-10

EXPENSE OPERATING BUDGET FINANCIAL REPORT (7000)

APPROPRIATION DATA	FOR PERIOD ENDED:	EOB IDENTIFICATION
17-1106.2721	30 Sept 1968	62211
FROM: Fiscal Officer Marine Barracks FPO San Francisco 96610	TO: Commandant of the MC Code AS-2 Washington, D. C. 20380	EOB APPROVED FOR: Commanding Officer Marine Barracks FPO San Francisco 96610

TRIAL BALANCE SECTION

NO.	ACCOUNT TITLE	DEBIT	CREDIT
110	Resources Available for Obligations	$ 213,792.04	$
111	Resources Available-Military Services	610,235.00	
112	Expense Authority	17,291.93	
121	Reimbursable Orders Received		46,242.04
201	Accounts Receivable	13,717.15	
202	Reimbursable Costs Collected	24,428.86	
310	Obligational Authority		16,005.36
311	Military Services Authority		- 0 -
312	Budgeted Expenses		777,785.00
510	Accounts Payable		26,410.01
511	Accrued Salaries & Wages		9,264.96
512	Fringe Benefits-Government Share		716.15
520	Prepaid Expenses	- 0 -	
530	Travel Advances	- 0 -	
540	Unfilled Orders		5,130.87
610	Funds Expended		156,264.69
620	Prior Year Resources Applied		3,844.30
630	Military Services Applied		610,235.00
670	Prior Year Resources Applied-CONTRA	3,844.30	
700	Reimbursements Earned		38,146.01
810	Expense Control	806,735.11	
	TOTALS	$1,690,044.39	$1,690,044.39

NAVCOMPT FORM 2170 (12-66) (2) NAVCOMPT 7000-10

EXPENSE OPERATING BUDGET FINANCIAL REPORT (7000)

REAL PROPERTY MAINTENANCE SECTION

	DESCRIPTION	TOTAL CHARGES CURRENT MONTH	TOTAL CHARGES CURRENT F.Y.
	REAL PROPERTY MAINTENANCE	$ 9,811.43	$ 28,244.73
	MINOR CONSTRUCTION AND ALTERATIONS		
819	TOTAL COSTS OF REAL PROPERTY MAINTENANCE	$ 9,811.43	$ 28,244.73

MILITARY SERVICES APPLIED SECTION

	TYPE OF SERVICE		TOTAL CHARGES CURRENT MONTH
	NAVY *(Regular)*		$
	NAVY *(TARS)*		
	MARINE CORPS *(Excludes Reserve Personnel)*	480	207,181.00
	ARMY		
	AIR FORCE		
630	TOTALS		$ 207,181.00

REMARKS

810 Expense Control	$ +	266,493.28
820 Undistributed Expense		- 0 -
620 Prior Year Resources Applied	+	351.72

NAVCOMPT FORM 2170 (12-66) NAVCOMPT 7000-10

EXPENSE OPERATING BUDGET FINANCIAL REPORT (7000)

APPROPRIATION DATA	FOR PERIOD ENDED	EOB IDENTIFICATION
17-1106.2721	30 Sept 1968	62211
FROM: Fiscal Officer Marine Barracks FPO San Francisco 96610	TO: Commandant of the MC Code AS-2 Washington, D. C. 20380	EOB APPROVED FOR: Commanding Officer Marine Barracks FPO San Francisco, 96610

REIMBURSABLE TRANSACTIONS SECTION

GENERAL LEDGER ACCOUNT		BALANCE OF ACCOUNT		
NO.	TITLE	PRIOR MONTH	CURRENT MONTH	(+ OR -) CHANGES FOR PERIOD
121	REIMBURSABLE ORDERS RECEIVED			
122	1. Non-Federal, Trust Funds	- 0 -	- 0 -	- 0 -
123	2. Non-Federal, Other Than Trust Funds	4,989.01	10,153.83	+ 5,164.82
124	3. Intra-appropriation	- 0 -	- 0 -	- 0 -
125	4. Other Navy appropriations	18,554.53	19,619.73	+ 1,065.20
	5. Other Government appropriations	19,440.00	16,468.48	- 2,971.52
	TOTALS	42,983.54	46,242.04	+ 3,258.50
700	REIMBURSEMENT EARNED			
701	1. Non-Federal, Trust Funds	- 0 -	- 0 -	- 0 -
702	2. Non-Federal, Other Than Trust Funds	4,989.01	10,153.83	+ 5,164.82
703	3. Intra-appropriation	- 0 -	- 0 -	- 0 -
704	4. Other Navy appropriations	8,548.81	11,523.70	+ 2,974.89
705	5. Other Government appropriations	11,319.97	16,468.48	+ 5,148.51
	TOTALS	24,857.79	38,146.01	+ 13,288.22
950	MILITARY SERVICE EXPENSES INCURRED FOR OTHER RESPONSIBILITY CENTERS			
	1. Non-Federal, Trust Funds			
	2. Non-Federal, Other Than Frust Funds			
	3. Intra-appropriation			
	4. Other Navy appropriations			
	5. Other Government appropriations			
	TOTALS			

NAVCOMPT FORM 2170 (12-66) (4) NAVCOMPT 7000-10

EXPENSE OPERATING BUDGET FINANCIAL REPORT (7000)

EXPENSE OPERATING BUDGET CHANGES SECTION

GENERAL LEDGER ACCOUNT NO.	TITLE	BALANCE OF ACCOUNT PRIOR MONTH	CURRENT MONTH	(+ OR -) CHANGES FOR PERIOD
510	Accounts Payable	33,037.91	26,410.01	- 6,627.90
511	Accrued Salaries & Wages	7,928.96	9,264.96	+ 1,336.00
512	Fringe Benefits-GS	605.29	716.15	+ 110.86
610	Funds Expended	92,123.09	156,264.69	+ 64,141.60
	Sub-Totals	133,695.25	192,655.81	+ 58,960.56
520	Prepaid Expenses	- 0 -	- 0 -	- 0 -
530	Travel Advances	- 0 -	- 0 -	- 0 -
888	NET TOTALS	133,695.25	192,655.81	+ 58,960.56
540	UNFILLED ORDERS*	26,570.29	5,130.87	- 21,439.42
	TOTAL NET CHANGES FOR PERIOD	160,265.54	197,786.68	+ 37,521.14

* ANALYSIS OF ACCOUNT 540 - UNFILLED ORDERS

541	REIMBURSABLE UNFILLED ORDERS	1. NON-FEDERAL, TRUST FUNDS	- 0 -	- 0 -	- 0 -
542		2. NON-FEDERAL, OTHER THAN TRUST FUNDS	68.61	24.68	- 44.13
543		3. INTRA-APPROPRIATION	- 0 -	- 0 -	- 0 -
544		4. OTHER NAVY APPROPRIATIONS	88.44	31.72	- 56.72
545		5. OTHER GOVERNMENT APPROPRIATIONS	108.10	38.78	- 69.32
546	OTHER THAN REIMBURSABLE UNFILLED ORDERS		26,304.94	5,035.69	- 21,269.25
		TOTAL	26,570.29	5,130.87	- 21,439.42

548 REMARKS: Other than Reimbursable Unfilled Orders-RPM $277.87 Acct 510: Govt $19,668.66
710 Unfunded A/R $ - 0 - Public 6,741.35
202 Reimbursable Costs Collected $15,256.19 Total $26,410.01
JD Charges: Current Month $ - 0 - Fiscal Year to Date $ - 0 -

I certify that the amounts herein reported are in accordance with 31 USC 200 and prescribed accounting procedures.	REPORTING FISCAL OFFICER (Signature and rank)	DATE

APPENDIX B

NAVCOMPT FORM 2168 (REV. 9-68) (FRONT)
S/N-0104-795-0001

EXHIBIT 7332-9

OPERATING BUDGET/EXPENSE REPORT

FROM	TO	BUDGET	REPORT	FOR PERIOD ENDING
Commanding Officer Marine Barracks U. S. Naval Base FPO New York 09593	Commandant of the Marine Corps Headquarters, U. S. Marine Corps Washington, D. C. 20380	[X] INITIAL [ ] UPDATED PLAN	[ ] INITIAL [ ] SUMMARY	30 June 1970
BUDGET FOR Commanding Officer Marine Barracks U. S. Naval Base FPO New York 09593	**BUDGET GRANTOR** Commandant of the Marine Corps Headquarters, U. S. Marine Corps Washington, D. C. 20380	**APPROPRIATION DATA** 17_1106.2721	**COST CENTER**	**REPORTING FISCAL OFFICER (Signature, rank and date of submission)**

FUNC/ SUB-FUNC. CAT.	COST ACCOUNT	DESCRIPTION	WORK UNITS	MAN-HOURS: MILITARY	MAN-HOURS: CIVILIAN	CUMULATIVE EXPENSES: MILITARY SERVICES	CIVILIAN LABOR	MATERIAL AND SUPPLIES	COMMERCIAL CONTRACTS	OTHER	TOTAL EXPENSES
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
D1	1C10	Administration		1,300	1,450	7,200	11,500	1,500	9,000		29,[illegible]
	1C20	Internal Review		200	750	800	5,000	500			6,300
	1C30	Budget and Statistics		1,000	6,000	6,000	41,000	2,000			49,000
	1C40	Accounting		6,000	16,000	23,000	62,500	2,000			92,500
	1C50	Payroll		8,000	18,000	41,000	91,000	4,000			136,000
	1C80	Military Absence		1,099		5,000					5,000
		SUBTOTAL "D1"		17,600	42,200	88,000	211,000	10,000	9,000		319,000
DZ	1C20	Internal Review			800		4,000				6,000
		SUBTOTAL "DZ"			800		4,000				4,000
		TOTAL "D"		17,600	43,000	88,000	215,000	10,000	9,000		322,000
M1	8120	Steam and Hot Water		1,700	3,250	8,000	42,000	12,000	980		62,980
	8350	Purchased Electricity							2,020		2,020
	8330	Electrical Distribution System		700	3,300	4,000	19,000	6,000	2,000		31,000
		SUBTOTAL "M1"		2,400	6,570	12,000	61,000	18,000	5,000		96,000
MZ	8330	Electrical Distribution System							2,000		2,000
		SUBTOTAL "MZ"							2,000		2,000
		TOTAL "M"		2,400	6,570	12,000	61,000	18,000	7,000		98,000
		Total Operating Expense		20,000	49,570	100,000	276,000	28,000	16,000		420,000
		Less Total Reimbursements Expenses (Funded)			800		4,000		2,000		6,000
		Total Direct Expenses (Includes Unfunded Reimbursements)		20,000	48,770	100,000	272,000	28,000	14,000		414,000
		± Net Change In Unfilled Orders							+1,000		+1,000
		Total Direct Operating Budget									
		MEMO ENTRY									
		Less Mil Pers		20,000		100,000					100,000
		New Obligational Authority		-0-	48,770	-0-	272,000	28,000	15,000		315,000

FORM 2100 (REV. 3-60) (7000)
706-0071

NAVCMPT 7000-0

PERFORMANCE STATEMENT

S. MARINE ACTIVITY SHINGTON 25, D. C.	TO	APPROPRIATION DATA	FOR PERIOD ENDING 31 July 1968 REPORTING FISCAL OFFICER (Signature and rank)
S. MARINE ACTIVITY SHINGTON 25, D. C.	BUDGET GRANTOR CMC	COST CENTER COMPTROLLER	DATE OF SUBMISSION

BUDGET CLASSIFICATION		EXPENSES			WORK UNITS				
COST ACCOUNT	DESCRIPTION	ACTUAL	ANNUAL BUDGET	NORM ___ % % TO BUDGET	ACTUAL	ANNUAL BUDGET	NORM ___ % % TO BUDGET	ACTUAL UNIT COST	STANDARD UNIT COST
(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1C10	Administration	2,750	29,200	9	199	3,069	6	27.78	-
1C20	Internal Review	1,250	6,300	20	3	27	11	416.67	-
1C30	Budget and Statistics	1,850	49,000	4	-	-	-	-	-
1C40	Accounting	8,000	92,500	9	600	5,800	10	13.33	-
1C50	Payroll	13,600	136,000	10	1,303	6,825	19	10.44	-
1CX0	Military Absence	75	5,000	2	-	-	-	-	-
1C20	Internal Review	400	4,000	10	-	-	-	-	-
	Total D	27,985	322,000	9					

NAVCOMPT FORM 2171 (2-67)
S/N-0104-706-0090

NAVCOMPT 7000-11

FUNCTIONAL CATEGORY/EXPENSE ELEMENT REPORT

APPROPRIATION DATA	FOR PERIOD ENDED	EOB IDENTIFICATION
1791106.2721	30 September 1968	62211
FROM: Fiscal Officer Marine Barracks FPO San Francisco 96610	TO: Commandant of the Marine Corps (Code AS-2) Washington D. C. 20380	EOB APPROVED FOR: MarBks, Pearl Harbor, 62211 CHARGEABLE UNIT IDENTIFICATION CODE: 62211

CODE	AMOUNT	CODE	AMOUNT
2C			
DIA	18,104.00	NIM	5,473.75
DIA (IR30)	25,594.00	NIQ	1,383.33
DIE	244.64	TOTAL FUNCTIONAL CATEGORY N	6,857.08
DIM	133.34	PIA	46.00
DIQ	585.37	PIQ	4,699.20
DIT	775.85	PIT	207.21
DIU	12,744.96	PIU	922.63
TOTAL FUNCTIONAL CATEGORY D	58,182.16	TOTAL FUNCTIONAL CATEGORY P	5,875.04
EIA	13,665.00	SIA	28,765.00
EIT	435.50	SIQ	372.45
EIU	6,881.11	SIT	1,434.72
EIY	28.96	SIU	9,659.07
TOTAL FUNCTIONAL CATEGORY E	21,010.57	TOTAL FUNCTIONAL CATEGORY S	40,231.24
LIA	116,828.00	TOTAL PROGRAM ELEMENT CODE 2C	266,493.28
LIN	1,048.50		
LIQ	204.95		
LIT	221.94		
L5T	333.53		
L7Q	1,285.04		
L7T	20.29		
L7U	305.15		
TOTAL FUNCTIONAL CATEGORY L	120,247.40		
MIA	4,179.00		
MIQ	4,920.40		
MIT	515.31		
MIU	4,475.08		
TOTAL FUNCTIONAL CATEGORY M	14,089.79		

NAVCOMPT FORM 2182 (3-68) (7000)
S/N 0104-706-2500

APPENDIX E

MILITARY SERVICE REPORT

NAVCOMPT 7000-17

FROM	TO	OB IDENTIFICATION / APPROPRIATION DATA	FOR MONTH OF / REPORTING FISCAL OFFICER (Signature and rank) / DATE OF SUBMISSION
Fiscal Officer Marine Barracks, U. S. Naval Base FPO San Francisco 96610	Commandant of the Marine Corps Code AS-2 Washington, D. C. 20380	OB IDENTIFICATION: 62211 APPROPRIATION DATA: 1791106.2721	FOR MONTH OF: September 1968 REPORTING FISCAL OFFICER (Signature and rank): DATE OF SUBMISSION: 5 Sep 1968

BRANCH OF SERVICE	OFFICERS			ENLISTED			TOTALS			TOTAL
	NUMBER	COST		NUMBER	COST		NUMBER	COST		
		AT STANDARD RATE	INCREMENTAL		AT STANDARD RATE	INCREMENTAL		AT STANDARD RATE	INCREMENTAL	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
NAVY	*	*	*							
MARINE CORPS	18	19,733		443	162,085		461	181,818		$181,818
ARMY										
AIR FORCE										
TOTALS	18	19,733		443	162,085		461	181,818		$181,818

* FOOTNOTE:
RPN TARS INCLUDED

Cumulative Quarterly Military Services Authority to Date	$540,941
" " " " Expense to Date	403,054
Balance available	$137,887

GPO 938-901 C-26301